{ ONE VOICE. ONE COMMUNITY. **WORKING AS ONE.** }

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY 2005–2006 ANNUAL REPORT

A MESSAGE FROM THE DIRECTOR

MICHAEL DEVOS, EXECUTIVE DIRECTOR

As we close out four decades of the Authority's existence, we can look back on its rich and vibrant history and be proud of the fact that the state of Michigan is a better place for our citizens to live, work and enjoy life to its fullest because of the dedicated efforts and hard work of our capable professional staff. Fiscal Year 2005-2006 has been particularly exciting—one of much change and renewed partnership building. We thank our many stakeholders, local officials, lenders, home builders, REALTORS®, bankers, nonprofits, developers and investors who have empowered our industry to rise to the occasion. Following the creation of an extensive five-year strategic plan, the entire affordable housing industry has united to become one single community with one single voice—and it has reached a booming crescendo with a very clear message.

We have encouraged prospective homebuyers to become first-time homeowners, inspired developers to build more affordable rental housing and assisted communities to create housing targeted for people who are homeless or have disabilities. We have provided technical assistance and funding to revitalize communities and downtowns throughout Michigan.

"We have provided technical assistance and funding to revitalize communities and downtowns throughout Michigan."

We have rallied behind homeless and domestic violence issues and held the first ever Homeless Summit in Michigan at which all 60 entities in eight regions presented their 10-year plans to end homelessness in the state. No one state has ever made that sort of commitment statewide, and we have garnered national attention for the effort. By combining efforts with nearly 30 other statewide partners, we played a leadership role in successfully hosting the Seventh Annual Michigan Conference on Affordable Housing. Outstanding leadership since the conference's inception has made it the largest of its kind in the country.

As we enter our fifth decade in service to Michigan's most vulnerable citizens, we will continue to invest in Michigan's future. Living in Michigan means investing in Michigan. Our industry has come together, done its homework, demonstrated the need, created the plan and is now ready to show the link between housing and community development investments will have a positive economic impact on Michigan from the most distant point of its Upper Peninsula to its southernmost borders.

2005-2006 HIGHLIGHTS

MSHDA HIGH POINTS:

- MSHDA brought together more than 200 private sector partners, representing over 30 organizations, that collaborated and created a comprehensive 5-year Action Plan addressing affordable housing, community development and homelessness issues.
- Authority-financed housing and community development projects created approximately 43,600 jobs and paid approximately $184 million in taxes.
- MSHDA invested over $146 million on various projects in rural communities throughout the state.
- The 2006 housing conference, of which MSHDA is a major partner, attracted over 1,700 participants from all across the state, making the Michigan Conference on Affordable Housing the largest of its kind in the country. Represented were nonprofit and for-profit developers, homeless services providers, local and state government officials, lenders and other community development practitioners.

RENTAL HIGH POINTS:

- Over $23 million in tax-exempt financing was devoted to rental projects in rural areas of the state, developing 411 new construction units, of which 256 units were for families.
- MSHDA financed 5,388 new and rehabilitated units, which surpassed its goal of 5,100 units.
- Increased Housing Choice Voucher (HCV) lease-up for very low-income families to 21,345 units.
- MSHDA's Housing Choice Voucher division received a High Performance rating in the Section Eight Management Asset Program from the Department of Housing and Urban Development (HUD).
- MSHDA allocated $28.9 million in Low Income Housing Tax Credits (LIHTC) to 69 developments helping create 3,410 units of affordable housing.

HOMEOWNERSHIP HIGH POINTS:

- Low-interest mortgages tripled as MSHDA's Homeownership division issued 1,394 loans totaling over $137 million.
- At its 35th annual conference, the National Council of State Housing Agencies presented MSHDA with "Outstanding State Housing Finance Agency" Award recognizing the "Key to Own Homeownership Program."
- The LINKS to Homeownership homebuyer education program served 2,926 households.

2005-2006 HIGHLIGHTS CONTINUED

SUPPORTIVE HOUSING AND HOMELESS INITIATIVES HIGH POINTS:

- In March 2006, communities across the state committed to completing a 10-Year Plan to End Homelessness.
- Approximately 240 Emergency Shelter Grants were awarded across MI totaling $7,680,000 in funding.
- $10 million was committed to establish local planning infrastructure and to facilitate the development of supportive housing for individuals who are chronically homeless.
- For the first time ever, a baseline data report was created that will serve as the foundation to measure progress toward eliminating homelessness.

COMMUNITY DEVELOPMENT AND DOWNTOWN REVITALIZATION HIGH POINTS:

- Nearly $3 million in federal Community Development Block Grants (CDBG) was administered to 18 Michigan downtown communities across the state.
- MSHDA's Office of Community Development distributed over $43 million in grants to local governments and nonprofit organizations.
- The Office of Community Development awarded $2.3 million in Community Development Block Grants (CDBG) to 11 Michigan communities for downtown rental rehab.
- The Michigan Main Street program provided intensive technical assistance from state and national experts to 11 communities, which resulted in 127 new or expanded businesses in downtowns, 267 new jobs, and $13.3 million in new private investment.
- 80 Brownfield projects totaling more than $1.88 billion in private investment led revitalization projects ranging from the Detroit Riverfront to Downtown Whitehall. These projects will help create 5,856 new jobs. This represents nearly twice the amount of private investment compared to the Community Assistance Team's (CATeam) 2005 Brownfield projects.

2006 PRODUCTION

PROGRAM	# OF UNITS/ GRANTS	DOLLAR AMOUNT
RENTAL		
Section 8 Housing Voucher Program	22,489	$114,469,471.00
Tax Exempt Bonds (Direct Lending)	2,729	$169,296,875.00
Pass Through	236	$11,655,000.00
HOME PURCHASE		
Homeownership (Single Family)	1,395	$137,422,849.00
Mortgage Credit Certificates	885	$81,812,611.00
Down Payment Assistance	290	$1,181,925.63
COMMUNITY DEVELOPMENT		
Homeless Emergency Shelter Grants	241	$7,679,592.00
Housing Resource Fund	20	$1,948,095.00
Federal HOME Investment Partnership	63	$7,009,450.00
Community Development Block Grants	56	$12,450,000.00
HOME IMPROVEMENT		
Property Improvement Program	143	$1,782,769.00

THE CITIES OF PROMISE

GOVERNOR GRANHOLM'S INTERAGENCY INITIATIVE FOR 2006

Great things can happen when we choose to focus our attention on a common goal. This was evident with Governor Granholm's new interagency initiative this year, Michigan's *Cities of Promise*. The *Cities of Promise* program has proven to be a source of great hope for some of Michigan's most vulnerable cities. By encouraging city-specific partnerships that brought together the best resources of the local community with those of state agencies, a city's highest priorities were addressed.

It is the aim of this interagency initiative to redevelop communities and reduce poverty. The pilot cities are those that are experiencing sometimes devastating conditions because of declining population, extreme poverty, loss of industry and jobs, crumbling infrastructure and blighted neighborhoods. The cities identified for this initiative are Benton Harbor, Detroit, Flint, Hamtramck, Highland Park, Muskegon Heights, Pontiac and Saginaw.

This five year initiative includes 18 state agencies: Departments of Education, Civil Rights, Labor and Economic Growth, Transportation, Environmental Quality, Military and Veterans Affairs, Human Services, Community Health, Education, Natural Resources, Treasury, Management and Budget, Agriculture, Information Technology, and Corrections in addition to the Michigan State Police, Michigan State Housing Development Authority and Michigan Economic Development Corporation. The role of the state agencies was to work together in a strategic, collaborative fashion to focus resources in these communities—driven by the local plans and presenting needs.

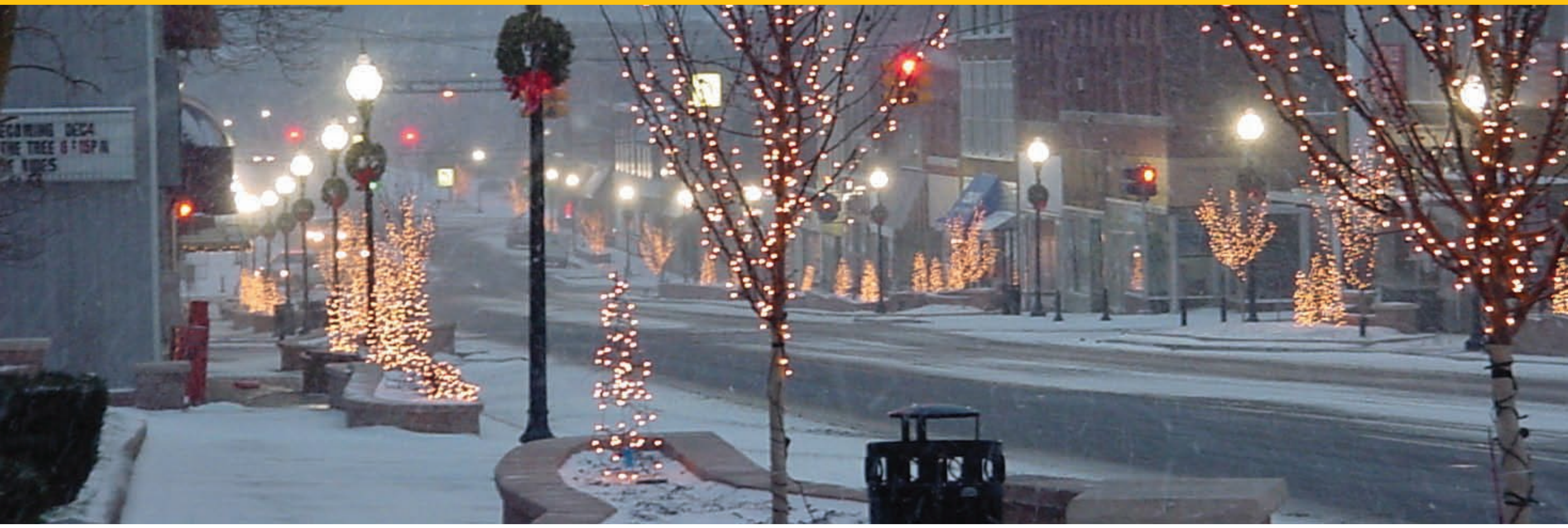
The initiative model involved the creation of a partnership team at the local level that included state agency representation, local unit of government partners and other stakeholders including churches, schools, business community, hospitals, community development corporations, human service organizations and the like. The partnership team worked on a subcommittee framework, with subcommittees formed around existing plans, top priority activities and the signature project. Local vision drove the process and the state representative's aim was to build on existing efforts and assets.

By encouraging city-specific partnerships that brought together the best resources of the local community with those of state agencies, a City's highest priorities were addressed.

Each partnership team included co-captains from one or more state agencies and a local level partner. Many of the state agencies have also selected a city for which they took a certain level of responsibility for; however, MSHDA and the Department of Human Services were the lead state agencies for the overall initiative.

On the macro level, elevating focus on these cities to a strategic level helped motivate policy makers during budget decisions. And, on a micro level, state agencies brought a team of resource experts to each of these cities to provide a half-day "Resource Workshop" where local stakeholders discussed current plans and needs. The state agency experts worked to match their tools to the variety of opportunities described.

Specific short-term deliverables varied from city to city; however, examples include fast tracked road enhancement projects, programs for contractor training and jobs development. Longer term desired outcomes of the five year initiative include: visible, positive change, sustainable movement toward revitalization, vested local champions and a signature project that will be a "wow" for the city.



REVIVING MICHIGAN'S NEIGHBORHOODS AND DOWNTOWNS

MSHDA's community development and downtown revitalization efforts are key to building strong economic stability in Michigan communities and downtowns.

MSHDA has a rich history of responsiveness and innovation in helping nonprofit organizations and local units of government implement local initiatives to improve Michigan's affordable housing stock, especially in neighborhoods. Improving the quality of life through redevelopment strategies is one important factor that drives the Authority's mission.

In 2006, more than $43 million in grants was awarded to local governments and nonprofit organizations to fund these activities that play such a critical role in changing the public's perception of atown for the better.

The $2.9 million awarded in 2006 leveraged $12 million in private investments and created 150 full-time jobs in downtowns throughout Michigan.

More than $2.9 million in federal Community Development Block Grant (CDBG) funds went to 18 downtown communities across the state in 2006. The money was targeted to making physical improvements to key properties in need through various programs that stimulated private investments, including building and housing renovations and job creation, within Michigan's traditional downtown areas. The programs assisted communities in making improvements to blocks or portions of blocks in need of façade enhancements; acquiring vacant or underused buildings for rehabilitation purposes and acquiring and demolishing blighted properties — all in downtown areas across the state.

ENDING HOMELESSNESS

The Office of Supportive Housing and Homeless Initiatives is a division with a big name … and a mission to match: To end homelessness in Michigan within 10 years. But it wasn't always that way.

In the beginning, MSHDA had just one person dealing with homeless matters working out of the Office of Community Development. Then, MSHDA director Michael DeVos came to the agency and determined that there were too many homeless people in Michigan (more than 50,000 on any given night). He felt that not enough was being done. To help address this issue, DeVos set up the Office of Supportive Housing and Homeless Initiatives—also known as Supportive Housing and the Homeless Division.

Within two short years, the division has grown from a staff of two to a team of 14 people dedicated to ending homelessness in Michigan.

Essentially, the Office of Supportive Housing and Homeless Initiatives takes a two-sided approach to the homeless issue. One side works on programs designed to reduce the homeless count, while other side works on building or rehabilitating supportive housing for people who need additional services such as on-site counseling and case management.

During 2005-2006 fiscal year, the Office of Supportive Housing and Homeless Initiatives played an integral role in guiding 60 statewide Continuum of Care organizations through the process of writing their own 10-year plans to end homelessness. Once that was accomplished, the division harvested the brightest ideas from all 60 plans and assisted Michael DeVos in authoring his landmark 10-Year Plan to End Homelessness.

The division also made great strides in 2005 in helping the chronically homeless and victims of domestic violence by providing $14 million in rental assistance and construction aid.

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Also in 2005, the Office of Supportive Housing and Homeless Initiatives opened the Housing Resource Center in Detroit—a one-stop spot for the homeless to get much of the assistance they need. Every day, case managers at Detroit's Housing Resource Center help the homeless find jobs, qualify for Housing Choice Vouchers and more.

But the Office of Supportive Housing and Homeless Initiatives couldn't do any of this alone. A lot of cooperative effort has been put forth by numerous state agencies to get assets moving in the right direction during the 2005-2006 fiscal year. And the mission continues … to end homelessness in Michigan within 10 years.

AUTHORITY BOARD MEMBERS

COLLEEN PERO, VICE-CHAIRPERSON
Attorney at Law

FLORISE R. NEVILLE-EWELL
Attorney at Law

DAVID C. HOLLISTER
Director, Department of Labor & Economic Growth

MARIANNE UDOW
Director, Department of Human Services

GILBERT B. SILVERMAN, CHAIRPERSON
President, Holtzman & Silverman Construction & Realty Limited

BERNARD S. GLIBERMAN
Crosswinds Communities, Inc.

DOROTHY R. STOCKBRIDGE
Section 8 Representative

JAY B. RISING
State Treasurer, Department of Treasury

Four Authority members are appointed by the Governor, with confirmation by the state Senate, for terms of four years. The remaining members are the State Treasurer, directors of the Michigan Department of Labor and Economic Growth and the Michigan Family Independence Agency (Department of Human Services.)

LEGAL AND FINANCIAL SERVICES 2006

UNDERWRITERS

SENIOR MANAGERS

Bear, Stearns & Company, Inc.

UBS Financial Services Inc.

Lehman Brothers

Merrill Lynch & Company

CO-MANAGERS

JP Morgan Chase

Comerica Securities

NatCity Investments, Inc.

Fifth Third

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

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Lewis & Munday, A Professional Corporation

G. Allen Bass, Esq.

OFFICE OF THE ATTORNEY GENERAL, COUNSEL

Terrence P. Grady, Esq., Assistant Attorney General

Ronald H. Farnum, Esq., Assistant Attorney General

Robert Brackenbury, Esq., Assistant Attorney General

FINANCIAL REPORT

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Michigan State Housing Development Authority (the "Authority") provides financial and technical assistance through public and private partnerships to create and preserve decent, affordable housing for low- and moderate-income Michigan residents. The Authority was created under the terms of Act 346, Public Acts of Michigan, 1966, as amended. The Authority is authorized to issue its bonds and notes to the investing public in order to create a flow of private capital through the Authority into mortgage loans to qualified housing sponsors and to certain qualified individuals.

The Authority offers a variety of programs to provide affordable housing opportunities, such as homeownership lending, low-interest property improvement lending, multifamily lending, mortgage credit certificates and pass-through obligations.

The enclosed financial statements present the Authority's financial position, revenue, expenses, changes in net assets and cash flows. The following is a condensed summary of financial information as of and for the years ended June 30, 2006, 2005 and 2004.

CONDENSED FINANCIAL INFORMATION (IN THOUSANDS OF DOLLARS)

	2006	2005	2004
NET ASSETS			
Investments	$538,750	$740,281	$678,097
Loans receivable - Net	$1,941,650	$1,805,564	$1,807,085
Other assets	$354,442	$155,325	$222,671
TOTAL ASSETS	**$2,834,842**	**$2,701,170**	**$2,707,853**
Bonds payable	$1,766,202	$1,621,154	$1,682,510
Other liabilities	$448,634	$483,637	$472,609
TOTAL LIABILITIES	**$2,214,836**	**$2,104,791**	**$2,155,119**
Restricted net assets	$265,313	$268,047	$261,272
Unrestricted net assets	$354,693	$328,332	$291,462
TOTAL NET ASSETS	**$620,006**	**$596,379**	**$552,734**
CHANGE IN NET ASSETS			
Net investment income	$55,964	$66,249	$55,743
Federal assistance programs revenue	$395,952	$381,733	$348,447
Section 8 program administrative fees	$13,464	$10,461	$10,438
Contract administration fees	$6,834	$7,602	$7,030
Other income	$16,320	$18,90	$33,599
TOTAL REVENUE	**$488,534**	**$484,947**	**$455,257**
Federal assistance programs expenses	$395,952	$381,733	$348,447
Salaries and benefits	$21,568	$17,907	$16,515
Other general operating expenses	$24,649	$18,957	$18,922
Other expenses	$6,894	$7,050	$4,625
TOTAL EXPENSES	**$449,063**	**$425,647**	**$388,509**
Grants and subsidies	$15,844	$15,655	$14,748
Change in net assets	$23,627	$43,64	$52,000

FINANCIAL ANALYSIS

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED, CONTINUED)

Total assets increased from $2.70 billion at June 30, 2005 to $2.83 billion at June 30, 2006. This was an increase of approximately $133.7 million, or 4.9 percent. Total assets decreased from $2.71 billion at June 30, 2004 to $2.70 billion at June 30, 2005. This was a decrease of approximately $7 million, or 0.2 percent.

Net loans receivable increased from $1,805.6 million at June 30, 2005 to $1,941.7 million at June 30, 2006. Loans receivable increased due to improved homeownership mortgage (net increase of $81.0 million) and multifamily mortgage (net increase of $56.2 million) loan production. Net loans receivable decreased from $1.807 billion at June 30, 2004 to $1.805 billion at June 30,2005. Loans receivable decreased due to a homeownership mortgage loan balance reduction of $27.2 million and home improvement and moderate rehabilitation loan balance reduction of $1.4 million. The fiscal year 2005 loan decreases were partially offset by multifamily mortgage loan production of $27.4 million. The homeownership loan prepayments exceeded loan originations due to the low interest rate environment.

Bonds payable increased from $1,621.1 million at June 30, 2005 to $1,766.2 million at June 30, 2006, a net increase of approximately $145.0 million. This increase was due primarily to the Authority issuing $220.7 million of Rental Housing Revenue Bonds and $294.9 million of homeownership Mortgage Revenue Bonds during the fiscal year, while bond calls and scheduled debt service totaled $370.7 million. Bonds payable decreased from $1.683 billion at June 30, 2004 to $1.621 billion at June 30, 2005, a net decrease of approximately $61.4 million. This decrease was primarily due to the Authority issuing $197.8 million of Rental Housing Revenue Bonds and $96.4 million of homeownership Mortgage Revenue Bonds during the fiscal year, while bond calls and scheduled debt service totaled $358.2 million.

Escrow funds, which are recorded in other liabilities, decreased by $42.6 million to $347.2 million at June 30, 2006 from a year earlier due to the prepayment of multifamily developments with large reserves. Escrow funds increased by $21.7 million to $389.7 million at June 30, 2005 from a year earlier due to the increased balance of multifamily mortgage loans.

The Authority's net assets totaled $620.0 million at June 30, 2006, equal to 21.9 percent of total assets and 28.0 percent of total liabilities. A significant portion of net assets is restricted. At June 30, 2006, $265.3 million of net assets was pledged for payment against the various bond indentures. In addition, $114.4 million is designated by board resolution, represented by the Community Development Fund. The Authority's net assets totaled $596.4 million at June 30, 2005, equal to 22.1 percent of total assets and 28.3 percent of total liabilities. A significant portion of net assets is restricted. At June 30, 2005, $268.0 million of net assets was pledged for payment against the various bond indentures. In addition, $99.9 million is designated by board resolution, for community development activity.

OPERATING RESULTS

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED, CONTINUED)

Operations for the year ended June 30, 2006 resulted in excess of revenues over expenses of $23.6 million compared to prior year results of $43.6 million. Under the Governmental Accounting Standards Board ("GASB") Statement No. 31, the Authority is required to present investments at fair market value and reflect this adjustment in the statement of revenue, expenses, and changes in net assets. This presentation increased revenue over expenses by $2.0 million. Results for the year ended June 30, 2005 were negatively impacted by a decrease of $3.0 million. Currently, GASB No. 31 has had a cumulative negative effect of $1.6 million on the Authority's net assets; however, the Authority generally intends to hold these securities to maturity. Operations for the year ended June 30, 2005 resulted in excess of revenues over expenses of $43.6 million compared to prior year results of $52.0 million.

Net investment income decreased from $66.2 million in 2005 to $56.0 million in 2006, a decrease of $10.2 million. On November 16, 2005, the Authority amended a $50 million investment with the Michigan Broadband Development Authority (MBDA) and agreed to write-off approximately $8.6 million. The Authority will be making available to MBDA, approximately $22 million for new loans and existing loan commitments, as well as approximately $1 million for ongoing administrative costs. MBDA has assigned MSHDA all principal and interest payments from current loans and will do so for all new loans. Net investment income increased from $55.7 million in 2004 to $66.2 million in 2005, an increase of $10.5 million. The negative impact of GASB No. 31 was less at June 30, 2005 ($3.0 million) as compared to June 30, 2004 ($8.5 million); this made for a positive differential of $5.5 million. Gain on sale of investments increased over the prior year by $2.5 million.

Total revenue increased from $484.9 million for the year ended June 30, 2005 to $488.5 million for the year ended June 30, 2006, a net increase of $3.6 million. Total revenue increased due primarily to the increase of federal assistance program revenue of $ 14.2 million and the increase of Section 8 program administrative fees of $3.0 million, which were partially offset by a decrease of net investment income of $ 10.2 million. Total revenue increased from $455.3 million for the year ended June 30, 2004 to $484.9 million for the year ended June 30, 2005, a net increase of $29.6 million. Total revenue increased due primarily to the increase of federal assistance program revenue of $33.3 million and the increase of net investment income of $10.5 million, which were partially offset by a decrease of preservation fees of $16.9 million.

Total operating expenses increased from $425.6 million for the year ended June 30, 2005 to $449.1 million for the year ended June 30, 2006, a net increase of $23.4 million.

Total operating expenses increased due primarily to an increase in the federal assistance programs of $14.2 million and an increase in salaries and benefits and other general operating expenses of $9.4 million. Total operating expenses increased from $388.5 million for the year ended June 30, 2004 to $425.6 million for the year ended June 30,2005, a net increase of $37.1 million. Total operating expenses increased due primarily to an increase in federal assistance programs of $33.3 million. The Authority increased the provision for possible losses on loans by $4.5 million as compared to an increase of $0.9 million in 2004.

For the full version of the financial report please visit the Web site at:
http://www.michigan.gov/mshda/0,1607,7-141-7559_9643-31129--,00.html